

**INLAND REVENUE  
(AMENDMENT) BILL 2022**

# Outline



- Threshold reduction
- Revisions to Income Tax rates
- Reintroduction of WHT (APIT/AIT)
- Standard rate of CIT

# PERSONAL TAX

# Personal Tax

## Tax free Allowance



Proposed (effective 01 <sup>st</sup> October 2022)	Prevailing
Rs. 1.2 Million per year of assessment	Rs. 3 Million per year of assessment

- Entitlement - All residents/ citizens of Sri Lanka
- Return filing requirements vary based on income source
- Concept of Y/A and tax residency
- Exit tax if residency shifts
- Transitional - halved threshold for Y/A 2022/2023

# Personal Tax Rates



## Proposed (01<sup>st</sup> October 2022 onwards)

Taxable Income p.a. (Rs.)	Rate
First 500,000	6%
Next 500,000	12%
Next 500,000	18%
Next 500,000	24%
Next 500,000	30%
Balance	36%

## Prevailing

Taxable Income p.a.(Rs.)	Rate
First 3 Million	6%
Next 3 Million	12%
Balance	18%

- Transitional - halved rates for H2 - Y/A 2022/2023

# Personal Tax - Expenditure Relief



Proposed (01st October 2022 onwards)	Prevailing
<p>The relief would be restricted to Rs. 600,000 incurred for the first six months of the year of assessment 2022/2023.</p> <p>Accordingly, the expenditure relief will not apply commencing from 1<sup>st</sup> October 2022</p>	<p>In the case of a resident individual, the following expenditure qualified for relief Up to a total sum of Rs. 1,200,000:</p> <ul style="list-style-type: none"><li>• Health expenditure</li><li>• Vocational education or other educational expenditure incurred locally</li><li>• Interest paid on housing loans</li><li>• Contributions made to any local pension scheme</li><li>• Expenditure incurred for the purchase of shares</li></ul>



# WITHHOLDING TAXES

# Withholding Taxes- Employment (APIT)



Proposed (Effective from the date of the commencement of the Act)	Prevailing
Employers are mandated to deduct Advance Personal Income Tax (“APIT”) from any payments made to employees.	<ul style="list-style-type: none"><li>• Nonresident/ non-citizen employees - APIT mandatory</li><li>• Resident employees - APIT only if the employee has given the consent to deduct same.</li></ul>

**Filing of Income Tax Return is not required by an individual whose tax payable for the year of assessment relates exclusively to income from employment where the employer has deducted Advance Personal Income Tax.**



# Withholding taxes

## Investment returns (AIT)



Proposed (Effective from the date of the commencement of the Act)	Prevailing
<p>Deducting of Advance Income Tax (“AIT”) is mandatory at the following rates;</p> <ul style="list-style-type: none"><li>• Interest or discount paid -5%</li><li>• rent payments made to a resident person where the aggregate payment exceeds or is equal to Rs. 100,000 per month - 10% on full amount</li><li>• Dividends-15% (final withholding payment)</li><li>• All other payments - 14%</li></ul>	<p>AIT is currently optional subject to exceptions. Individual Taxpayers are currently subject to tax on the investment returns on their respective progressive tax slabs (maximum of 18%).</p>

# Withholding taxes

## Service Fees (AIT)



Proposed (Effective from the date of the commencement of the Act)	Prevailing
<p>Service fee paid with a source in Sri Lanka to a resident individual who is not an employee of the payer and exceeds Rs. 100,000 per month will be subject to withholding tax at the rate of 5%</p> <ul style="list-style-type: none"><li>• Teaching, lecturing, examining, invigilating or supervising an examination;</li><li>• as a commission or brokerage to a resident insurance, sales or canvassing agent; or</li><li>• for services provided by such individual in the capacity of independent service provider such as doctor, engineer, accountant, lawyer, software developer, researcher, academic or <b>any individual service provider</b> as may be prescribed by regulation:</li></ul>	<p>Service fees are currently taxed in the hands of the recipient individual.</p>

# CORPORATE TAX

# Corporate Income Tax Tax Rates (01st October 2022)



Industry	Proposed	Prevailing
SME, Exports, Specified undertaking, Promotion of Tourism, Education, Healthcare , Construction, and Agro Processing	30%	14%
Gains and profits of any company which lists its shares prior to December 31, 2021, in the Colombo Stock Exchange for 3 years of assessment	30%	14%
Gains and profits from the consideration received in respect of gems and jewellery	30%	14%
Gains and profits from the supply of electricity to national grid generated using renewable energy resource	30%	14%
Manufacturing	30%	18%
Trading, Banking, Finance, Insurance, etc. (Standard Rate)	30%	24%
Manufacture and sale or import and sale of any Liquor or Tobacco and conducting Betting and Gaming	40%	40%

# Income Tax rates

(Effective 01st October 2022 unless otherwise specified)



## Revision of tax rate - Trust

Proposed	Prevailing
30%	18%

## Revision of Tax rate - Unit trust or Mutual funds

Proposed	Prevailing
30%	24%

## Revision of Tax rate - Non-Governmental Organizations

Proposed	Prevailing
30%	24%



# Capital Gain Tax - Companies



Proposed (Effective from 01st October 2022)	Prevailing
30% on realization of investment assets	10% on realization of investment assets



Pursuant to the Interim Budget presented on 30<sup>th</sup> August 2022, the Inland Revenue (Amendment) Bill - Gazette Supplementary has been issued on the 11<sup>th</sup> of October 2022. We have set out the salient features of the Bill which include a plethora of revisions to rates, thresholds, exemptions, and the re-introduction of tax at source. **The changes stemming from the Bill are subject to committee stage amendments and will be effective upon the Bill being signed into law.**

# Industrial specific changes



The reduction on tax payable for persons engaged in agro farming together with agro processing or manufacturing is to be restricted as follows:

Proposed	Prevailing
Tax payable reduced by 25% for the period of two years of assessment commencing on April 1, 2021	Tax payable reduced by 25% for the period of five years of assessment commencing on April 1, 2021

# Exemptions



## New exemptions

- A gain made by an entity fully owned by the Government of Sri Lanka as a gain from the realization of a capital asset or liability of the business or realization of an investment asset, if such gain was made due to any decision by the Government of Sri Lanka as being essential for the economic development of Sri Lanka and subject to the prior written approval of the Ministry.
- Pass through dividend paid by a resident company to a member which has been subjected to AIT.

# Exemptions



## Removal of exemptions

### REITS - Effective from 01<sup>st</sup> October 2022

- A gain made by a person from the realization of land or building which was sold, exchanged or transferred to a real estate investment trust listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka.
- dividends and gains on the realisation of units or amounts derived as gains from the realization of capital assets of a business or investment by a unit holder, from real estate investment trust listed in the Colombo Stock Exchange and licensed by the Securities and Exchange Commission of Sri Lanka;



# Exemptions



## Dividends paid to Non Resident Persons - Effective from 01st October 2022

The exemption granted for dividends paid by a resident company to a member who is a non- resident person is to be revoked

## IT and enabled services - Effective from 01st April 2023

The exemption granted for providing information technology and enabled services is to be revoked.

## Removal of exemptions on Vocational education Institution

Proposed	Prevailing
2 years	5 years

# Exemptions



## Removal of new investment exemptions

Proposed	Prevailing
<p>Removing of certain income tax holidays granted under the Inland Revenue Amendment Act of 2021 except where projects or undertakings commenced prior to 31<sup>st</sup> March 2023.</p>	<p>Industry wise/ time bound exemptions apply on the following:</p> <ul style="list-style-type: none"><li>• Recycling of construction material - 10 years<ul style="list-style-type: none"><li>• Business commenced after TVET training - 5 years</li><li>• Manufacturing of boats or ships in Sri Lanka and received or derived any gains and profits from the supply of such boats or ships - 7 years</li><li>• Installation of communication towers -5 years</li><li>• Letting bonded warehouses or warehouses related to offshore businesses</li><li>• Renewable energy project with capacity to produce not less than one hundred Mega Watts of solar or wind power to national grid - 7 years</li></ul></li></ul>

# Deductions in computing Assessable Income



## Taxes and other levies (w.e.f. 01st April 2021)

Taxes and other levies specified by the Commissioner General is non-deductible. This prohibition has been extended to any tax or levy which is not allowed to be deducted in calculating a person's income in terms of any other written law.

## Improvements made to depreciable assets (w.e.f. 01st April 2022)

Proposed	Prevailing
<p>Where the tax written down value of the depreciable asset is zero, the deduction for improvements will be deducted in equal installments as follows;</p> <ul style="list-style-type: none"><li>• Class 4 assets - 12 years of assessments</li><li>• Other classes of assets - 3 years of assessments</li></ul>	<p>“improvements” made to depreciable assets can be deducted up to a specified percentage of the tax written down value of the asset</p>

# Deductions in computing Assessable Income



## Allowable Financial costs

The Bill provides that, where there are no financial costs incurred during the year, the unused limitation for the above deduction can be computed by using the same amounts of the immediately preceding year.

# Loss deduction rules (w.e.f. 01st April 2018)



## Loss deduction after the tax rate has been increased

Where a person makes a loss and if that loss were a profit, it would have been taxed at a reduced rate, the loss shall be deducted only in calculating income taxed at the same reduced rate, a lower reduced rate or exempt amounts. However, the bill specifies that where the income tax rate has been subsequently increased, a loss incurred previously at a lower rate will not be considered as being taxable at a reduced rate and will be deductible against the profit liable to tax at the increased tax rate.



# Loss deduction rules (w.e.f. 01st April 2018)



## Investment losses deductible up to 6 years of assessment

The law currently has a restriction on the time available for carrying forward unrelieved losses from business up to 6 years. This has been extended to investment losses, which will also only be deductible within six years of assessment commencing on the first date of the year of assessment immediately succeeding the year of assessment in which such losses were incurred.

## No loss deductible from a gain on the realization of an investment asset

No loss can be deducted from the gain on realization of an investment asset unless prescribed by regulation.

# Payments having a source in Sri Lanka (w.e.f. 01st April 2018)



Any interest, charges, annuities, a royalty, technical service fee, or similar payment paid by the Government of Sri Lanka, including such payments made by any institution on behalf of the Government of Sri Lanka will be considered to have a source in Sri Lanka.

# Filing of SET Return (w.e.f. 01st April 2021)



The estimated gains derived or expected to be derived from the realization of an investment asset during the year of assessment shall not be considered for the purpose of ascertaining the quarterly income tax payment.

# Administrative Review



The timeframe for appeals where a taxpayer is dissatisfied with an assessment or other decision may request the Commissioner-General to review the decision is to be reduced as follows:

Proposed	Prevailing
On or after 1 <sup>st</sup> April 2023, not later than fourteen working days after the taxpayer was notified of the decision	Not later than thirty days after the taxpayer was notified of the decision

This publication has been carefully prepared but has been written in general terms and should be treated as a broad guidance only. The proposed changes to the tax laws would take effect only when such proposals are enacted in the respective statutes. Neither BDO Partners nor its employees accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in the reliance on the information contained in this publication or for any decision based on it.

# THANK YOU

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